

REQUEST FOR CONCEPTUAL APPROVAL

Fiscal Year [2010-11]

TITLE OF PROPOSAL

Increase Revenue Through Agricultural Inspection Station Tax Leads

DIVISION PRIORITY NUMBER

PROGRAM IMPACTED

SUTD - Interstate Commerce Analysis Team (ICAT)

SUMMARY OF REQUEST *(including impact if request denied)*

This proposal requests funding to convert 13.0 existing limited-term (LT) positions to permanent positions and for 46.0 new positions to obtain tax leads from the Department of Food and Agriculture's (CDFA) facilities at Needles, Yermo, Hornbrook, and Truckee. The Board of Equalization (BOE) and CDFA developed an interagency agreement for the detection and identification of property being brought into California without payment of the sales and use tax. Based on the existing BOE/CDFA program at CDFA's Needles facility, the BOE has been able to conclusively determine that there are significant amounts of tangible personal property being shipped into California subject to sales and/or use tax. Permanently expanding the existing program is expected to increase sales and use tax revenue by \$37.3 million at a benefit to cost ratio in excess of 5 to 1.

BACKGROUND/HISTORY

The Agriculture Inspection Station Tax Lead pilot program was approved in the fiscal year (FY) 06/07 budget process adding 16.0 limited-term positions to identify untaxed property brought into the state through the Department of Food and Agriculture border inspection stations. The FY 07/08 budget process approved a two-year extension of this program through FY 09/10. SUTD exceeded our original BCP estimate of \$8.9 million with FY 07/08 revenue of \$12.9 million. Our FY 08/09 revenue estimate is also \$8.9 million and we are on track to meet and exceed this estimate with revenue of \$14.1 million through May 2009. As a pilot program, positions were funded for CDFA and the Motor Carrier Section (MCS) to provide BOE with lead information. The volume and productivity of the CDFA leads has been significantly greater than that of the MCS leads. Accordingly, our proposal is to expand the program without MCS staff, and include three new locations (Yermo, Hornbrook, Truckee) based on truck traffic and the potential for leads.

STATE LEVEL CONSIDERATIONS *(including impact to other departments)*

This proposal addresses the Legislature's intent to close the \$1.5 billion tax gap and is consistent with BOE's Strategic Plan. This proposal requires that resources are applied only to the highest priority workload and to workload growth. Thus, this proposal meets the Board's purpose to ensure that BOE identifies and analyzes areas of non-compliance and implements approaches to efficiently administer the sale and use tax program.

JUSTIFICATION *(including link to Strategic Plan)*

The pilot program has operated for more than two years, and its endeavor has exceeded revenue projections after full implementation and training of new staff. In 2007-08 program generated \$12.9 million in revenue which exceeded the \$8.91 million forecasted. For 2008-09 (through May 2009), program has generated \$14.1 million which again exceeds the revenue forecast of \$8.9 million for this fiscal year. SUTD considered redirecting staff to conduct the original pilot and this new proposal. However, we are not recommending redirection from other revenue generating activities based on favorable benefit to cost ratios of those activities. To redirect would jeopardize approximately \$19 million of revenue from existing audit and collection activity. (Continued on back)

COSTS AND BENEFITS (BUDGET YEAR ONLY – FISCAL YEAR [2010-11])
 New funding Continuation Redirection

COST \$ 6.6 million (estimated); BY +1 = \$ 5.9 million (estimated)	REVENUE <i>(if applicable)</i> \$ 37.3 million (estimated); BY +1 = \$50 million (estimated)
POSITIONS <i>(if applicable)</i> 59.0 Permanent Full Time	COST SAVINGS <i>(if applicable)</i> \$ Estimated Benefit to Cost Ratio - 5.6:1; BY+1 = 8.5:1

PREPARED AND APPROVED

PREPARED BY Stephen Rudd	DIVISION CHIEF APPROVAL
AUTHOR'S TELEPHONE NUMBER (916) 322-4889	DATE 7-2-2009

ACTION
 Concept Approved Request Denied
EXECUTIVE DIRECTOR *(signature)*

REQUEST FOR CONECTUAL APPROVAL

Fiscal Year [2010-2011]

JUSTIFICATION (CONTINUED):

The Sales and Use Tax Department (SUTD) recommends expanding the existing Board of Equalization (BOE) and California Department of Food and Agriculture's (CDFA) partnership for identifying tangible personal property being shipped into California. Through this partnership, CDFA staff obtains copies of bill of ladings from truckers at agriculture inspection stations and provides these potential tax leads to SUTD.

After consulting with the Motor Carrier Section (MCS), we are also recommending their participation in the program be discontinued. Prior to the BOE/CDFA partnership, the primary focus of the BOE's pre-existing Truck Stop Program was to ensure compliance with diesel fuel tax licensing. Because of the program's focus on fuel taxes, its identification of potential tax leads for other BOE tax programs occurred only as a small by-product of the diesel fuel tax enforcement process.

SUTD recommends continuing lead collection at Needles and adding three additional locations expanding the BOE/CDFA partnership to include lead gathering from CDFA's Yermo, Hornbrook, and Truckee facilities (see attached map). The three additional locations were selected from a total of 16 CDFA sites based on the logistics at the sites, volume of truck traffic, and potential leads. Funding is being requested to expand the program into these three facilities based in part on location specific information obtained from CDFA and MCS. SUTD expects the number of leads to be generated by CDFA from each of these facilities to support the use of additional SUTD staff and generate revenue adjusted for the truck traffic for the new facilities.

CDFA has been contacted and consulted regarding locations and operations at these locations. CDFA has responded favorably to the potential expansion of the program. Currently, there are a significant number of leads coming from the Needles facility waiting to be evaluated. An augmentation of existing staff, supported by the necessary workload justification, will be included in the budget change proposal. The new staff is necessary to complete the more than anticipated work from Needles. We anticipate adding the majority of the new staff to the existing staff in the Riverside district office. Due to space availability, it will likely require obtaining additional space in the Riverside state building to house staff and those costs have been included in our concept analysis.

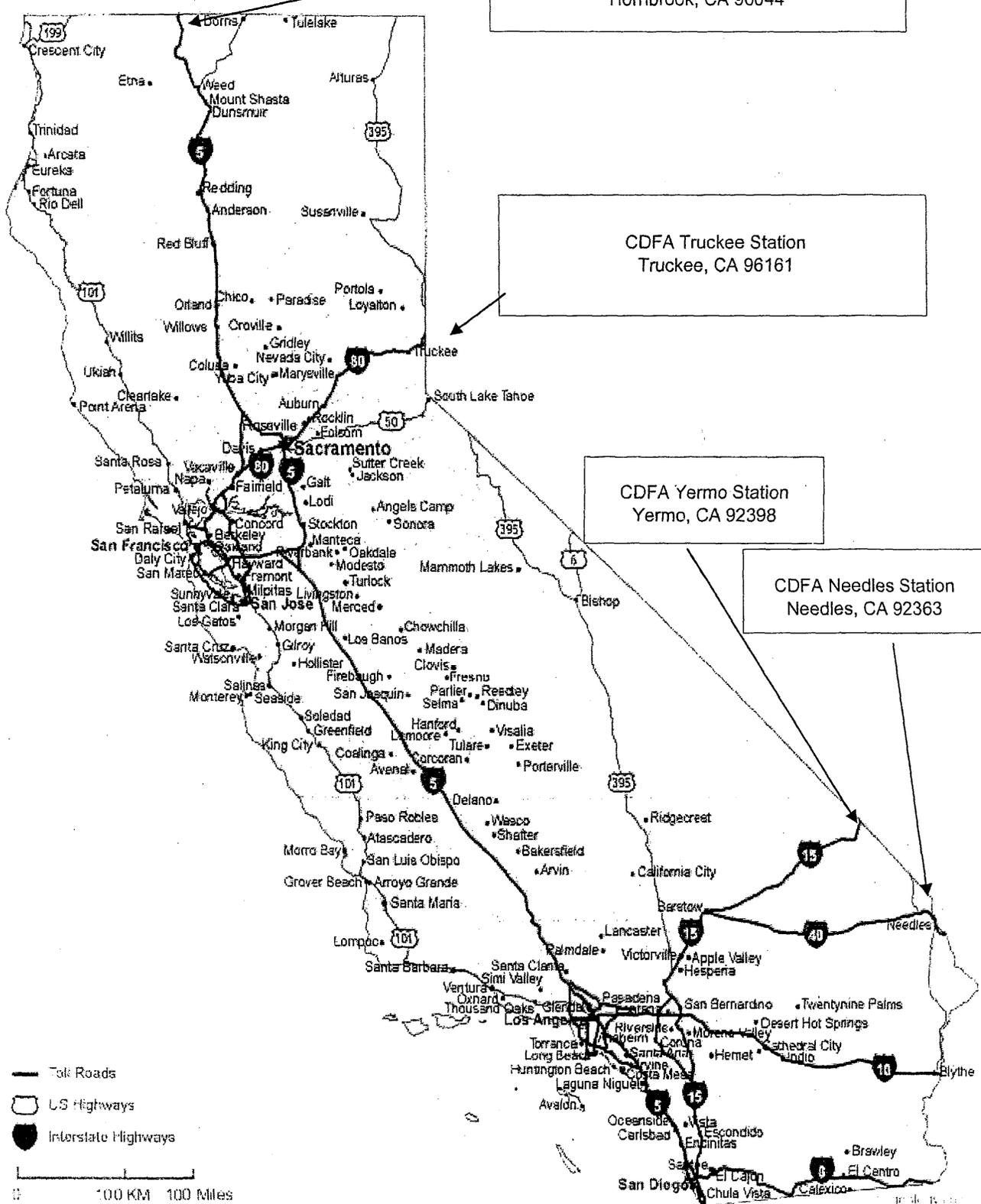
This proposal is consistent with the BOE's Strategic Plan, 2007-2011. Specifically, this proposal conforms to two of BOE's Strategic Plan Goals:

Goal 1: Maximize Voluntary Compliance in BOE's Programs

This BCP proposes a permanent continuation of activities that support the Board's goal to identify and analyze areas of noncompliance and develop approaches (such as enhanced partnerships with other governmental agencies) to address targeted areas of concern.

Goal 2: Improve the Efficiency of BOE's Tax and Fee Programs

Through the continued efforts of this program, BOE will be able to show a commitment for fair and responsible administration of tax including assessing, collecting, and allocating revenue more efficiently. BOE is also utilizing this program to be more effective in its ability to leverage business opportunities with other state agencies and implementing new approaches for administering tax programs.



- Toll Roads
- US Highways
- Interstate Highways

100 KM 100 Miles